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Executive Secretary

ARIZONA CORPORATION COMMISSION

January 5, 2004

The Honorable John McCain
United States Senate
241 Russell Senate Office Building
Washington, D.C. 20510-0303

Re: EPA Arsenic Rule Compliance

Dear Senator McCain:

In October 2001, the Environmental Protection Agency (EPA) reduced the Maximum Contaminant Level (MCL) for arsenic in public drinking water systems from the current MCL of 50 parts per billion (ppb) to 10 ppb. Every public water system in the nation is required to comply with the new MCL for arsenic by January 2006. Arizona faces unique challenges in achieving this standard for arsenic is naturally-occurring in the soil. Many Arizonans will be slammed with higher monthly bills as their water providers install new arsenic treatment equipment to comply with the EPA's unfunded mandate.

The Arizona Department of Environmental Quality (ADEQ) will be responsible for enforcing the new standard in Arizona. According to ADEQ, 340 water systems in the state currently exceed the new MCL. Of these, ADEQ estimates that without additional revenues, 278 small water systems (many of which are regulated by the Arizona Corporation Commission) will have difficulty financing the infrastructure modifications needed to comply.

As shown by the information on the attached sheet, the financial impact on ratepayers throughout Arizona will be dramatic, even when very conservatively estimated. As you see, close to 340,100 Arizonans across the state will have to shoulder an enormous financial burden, which is estimated to cost between \$110 million and \$130 million for the capital component alone, to meet the EPA's unfunded mandate.

Out of our concern for the immense financial burden that compliance with EPA's unfunded mandate will place on water systems and their customers, we have been working jointly with the ADEQ for over a year to disseminate information about the implications of the new standard. With little more than two years before the standard becomes effective, however, our concerns have deepened to the extent that we must now explore every possible means of easing the financial impact on the ratepayers.

While we are contemplating various state funding mechanisms, we also think it fully appropriate to seek assistance from the Federal Government to enable small water systems to meet the new standard without drastically raising rates on customers. Without such financial assistance, not only may water become unaffordable for some Arizonans, but we may well see a rash of water company bankruptcies, forcing their customers to seek alternative sources of water, including drilling wells in arsenic-contaminated groundwater. Accordingly, we would appreciate your consideration of this matter and support for our request that Arizona's Congressional Delegation seek appropriations to alleviate the impending financial wallop on ratepayers' pocketbooks.

We look forward to working with you on this critical problem affecting the customers of Arizona's small water systems.

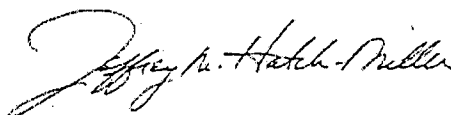
Sincerely,



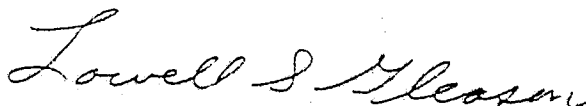
Marc Spitzer, Chairman



William A. Mundell, Commissioner



Jeff Hatch-Miller, Commissioner



Mike Gleason, Commissioner



Kristin K. Mayes, Commissioner

Attachment

C: - Arizona's Congressional Delegation

The Honorable J. Dennis Hastert, Speaker, United States House of Representatives

The Honorable Ted Stevens, President Pro Tempore, United States Senate

The Honorable Janet Napolitano, Governor of the State of Arizona

The Honorable Jake Flake, Speaker of the Arizona House of Representatives

The Honorable Ken Bennett, President of the Arizona Senate

Steve Owens, Director, Arizona Department of Environmental Quality

Jeff Stuck, Safe Drinking Water Manager, Arizona Department of Environmental Quality

Herb Guenther, Director, Arizona Department of Water Resources

Jay Spector, Director, Water Infrastructure Financing Authority of Arizona